



ENERGY

UPPER MIDDLE INCOME *

CLIMATE SMART

PANAMA Transmission Line IV

GIF FUNDING & LEVERAGE

GIF Project Preparation
and Structuring Activity

\$750,000

Potential Private Investment
Mobilized:

\$580 million

Panama recently faced the worst blackout in its history due to growing electricity demand, transmission constraints, and high fuel prices, prompting the government to seek solutions for more reliable and cheaper energy. GIF is supporting Panama's transmission company procurement of a new transmission line to increase the capacity and resiliency of the network, and to facilitate evacuation of increasing renewable energy generation capacity in the west of the country.

EXPECTED PROJECT OUTCOMES

- ◆ Increased and more resilient transmission capacity: Together with the commissioning of Line III and Line IV, capacity is expected to increase within three years from 359MW in 2017 to approximately 1,300MW by 2020.
- ◆ Support increased use of renewable generation: The Project will facilitate the development of renewable energy generation in western Panama, which are projected to increase from 11% in 2017 of total energy generation to 42% by 2020.

TECHNICAL PARTNERS

BACKGROUND

Panama is one of the fastest growing and dynamic economic in Latin America, with energy demand expected to grow between 4.8% and 7.4% on average for the next 15 years. However, between 2013 and 2014 Panama faced one of the worst energy crises in its history due to a combination of factors, including: a) the inability of generation capacity to keep up with increasing demand; b) transmission constraints; and c) expensive fuel driving spot prices to over \$300/MWh. The Government of Panama decided to seek ways to secure cheaper energy costs for its citizens through the diversification of its energy mix and the development of a reliable and better-planned network transmission system. Panama's transmission grid needs more redundancy to ensure resilience and good quality of service. The three transmission lines in the country (Line I, II, and III) are all located on the Pacific coast, making the system highly vulnerable to operational risks if and all lines are overcharged. Today the west side of the country, where the power plants for generation are located, is connected to the main load centers in the east solely through the Pacific coast. Line IV will increase the transmission capacity to satisfy the growing demand of the east, and become the first transmission line along the Atlantic coast reducing the susceptibility of the network to major weather events.

PROJECT FEATURES

IFC will support the Government of Panama, specifically ETESA, the state-owned Panama National Transmission Company, to procure and develop the 330km double-

circuit 500kv (AC) Transmission Line IV under a PPP scheme. The project contains two major components that will be undertaken in sequence under one single PPP contract: 1) the construction of the transmission line, and 2) increasing the capacity of two substations. The proposed business model envisages a 30-year PPP contract in which a private operator will oversee the design, construction, financing and operation of the project, receiving availability payments subject to performance indicators. GIF and IFC support will be delivered through a phased approach which includes firstly a cost-benefit analysis and the technical, legal and financial due diligence underpinning the transaction structure. This will be followed by project promotion, elaboration of bidding documents, and support throughout the bidding process until commercial closing.

WHY GIF

The regulatory adjustment to increase tariffs and the acquisition of the right-of-way through biologically diverse natural habitats with indigenous people represent two critical complexities of this project. GIF will add value by providing resources necessary to allow the IFC to complete a full Environmental & Social (E&S) due diligence, and advise on and implement the regulatory tariff increase for end-users' bills. With the first phase of the project starting in 2018, GIF resources will ensure the engagement with appropriate national partners to manage and mitigate both the impacts of the project as well as the challenges to the timeline and deliverability. GIF funding and technical expertise will be used directly to achieve an appropriate regulatory adjustment that protects consumers while also ensuring bankability of the project.

The Global Infrastructure Facility, or GIF, is a partnership of governments, multilateral development banks and private sector financiers that facilitates private-sector investment in complex infrastructure projects in emerging economies. We serve as a platform through which governments collaborate with international financial institutions and private sector investors to design, structure and implement these complex projects.

The comprehensive project-preparation support provided by the GIF draws on the expertise of its advisory partners which includes commercial banks and institutional investors. The broad partnership ensures that well-structured and bankable infrastructure projects are brought to market in a way that meets the needs of governments and service users in a sustainable way.